REVIEW OF FISHERY DEVELOPMENT

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BEFORE A

SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS UNITED STATES SENATE

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REVIEW OF FISHERY DEVELOPMENT

FRIDAY, JUNE 4, 1982

U.S. SENATE,
SUBCOMMITTEE ON STATE, JUSTICE, COMMERCE,
THE JUDICIARY, AND RELATED AGENCIES,
COMMITTEE ON APPROPRIATIONS,
Kodiak, Alaska.

The subcommittee met at 9 a.m., Elks lodge headquarters, Kodiak, Alaska, Hon. Ted Stevens presiding.

Present: Senator Stevens.

NONDEPARTMENTAL WITNESSES

IMPLEMENTATION OF U.S. FISHERY DEVELOPMENT GOALS

OPENING STATEMENT OF SENATOR STEVENS

Senator STEVENS. Gentlemen, if we may, I want to thank you all for taking the time to participate in this review of fishery development. This is a subcommittee of the Senate Appropriations Committee. We've called these hearings to help us establish a record that will support our fishery development effort in Congress and will, I hope, help focus the attention of the administration and the Congress on the need for a coherent development policy that will bring us to our goal eventually of 100 percent U.S. control of our fisheries resources.

We've discussed the potential of Alaska's fishing industry since passage of the 200-mile-limit law. Congress took special note in the Fisheries Conservation and Management Act of 1976 of the vast development potential in the bottomfish that lie off our shores. Yet, for a number of reasons, we're still trying to get through the infant stages of development of that industry. The time has arrived for us to implement our development goals in a more concrete fashion and we hope that today you will help us by discussing how the U.S. Government can help the industy and help replace the foreign fleets that are off our shores.

This administration has responded to our requests both in the Department of Commerce and the Department of State for action that indicates a more aggressive development policy. The Department of State on April 1 of this year reduced the allocation granted the Japanese fleet by 100,000 metric tons for the first time. That's the first time they've responded to our requests. I'd urged Secretary Haig to take that aggressive posture to support our efforts. In November of last year, we were delighted to see him and his De-

partment stand behind his pledge to help us meet our development needs.

We now feel that that time has come for us to employ all available needs through the so-called fish and chips policy (in spite of the fact we depend on other nations for our markets; our fisheries products).

I do hope that you will give us your views as to what we can do to reorganize these goals or organizational efforts to attain the goals. In particular, we want to see whether we have the proper approach to the agricultural industry and whether we could use some of the mechanisms that are available in the agricultural industry in the fishing industry. Both the capital construction fund and the agriculture cooperative concept may prove to be valuable as we try to move on shore in this development and we intend to continue to review them to see if we can include fishing in some of those agricultural policies.

Today, we have a series of witnesses and while it may look like we're talking to ourselves, we're making a record that will be examined by the committees of Congress, so I hope that you'll help us do that.

National Marine Fishery Service

STATEMENT OF JAMES W. BROOKS, NATIONAL MARINE FISHERY SERVICE

ACCELERATING DEVELOPMENT OF GROUNDFISH RESOURCES

Senator Stevens. Let us start with Jim Brooks.

Mr. Brooks. Thank you, Mr. Chairman. My name is James W. Brooks. I represent the National Marine Fishery Service. I'm very pleased to appear before your committee this morning to testify on the efforts of Government and industry to accelerate the development of domestic groundfish resources not traditionally utilized by U.S. fishermen and to maximize benefits from our traditional fisheries. These efforts support the statutory goal of the Magnuson Act to achieve maximum economic value for the United States from our fisheries resources and represent a major program focus of the National Marine Fisheries Service. The goal holds promise of benefits, both nationally and regionally that are scaled to the enormous available resources. In the fishery conservation zone off Alaska alone, the harvestable annual surplus of groundfish is known to achieve 2 million metric tons, of which 1.85 million metric tons are now allocated to foreign nations. the present ex-vessel value of this resource exceeds $300 million. Its potential value is vastly higher when we postulate our domestic industry catching, processing, marketing, and distributing a substantial portion of this harvestable surplus. Additional to the benefits accruing to our fishing industry and consumers, major expansion of our groundfish fisheries would have noteworthy and positive effects on our foreign trade balance.

At this point, I would like to acknowledge that our determination to work cooperatively and effectively with industry and fisheries development is not founded on injection of more Federal dollars. To the contrary, a number of reductions have been proposed in the fiscal year 1983 National Marine Fisheries Service budget,

consistent with the President's effort to reduce the size of Government and stimulate private sector initiatives. We will deemphasize direct assistance in areas which are the proper responsibilities of private industry and local authorities.

ROLE OF THE GOVERNMENT

Thus, the administration is proposing to phase out the S–K program making S–K revenues now devoted to National Marine Fisheries Service programs subject to the normal appropriations process. We also aim to reduce in-house development and utilization activities, believing that industry possesses the knowledge and acute sensitivity to changing circumstances necessary to consistently identify and evaluate more opportunities in these areas. The fishing vessel loan program for the construction and improvement of fishing vessels and shoreside facilities is also proposed for some reduction. We are convinced that the role of Government must be to promote genuine growth opportunities for our fishing industry. In this vein, there can be little doubt that the fishing industry will benefit most from the administration's effort to stabilize financial markets, reduce interest rates, eliminate burdensome and unnecessary regulations, and lower inflation than from direct Federal assistance.

FLUCTUATIONS IN RESOURCES

Within the Fisheries Service, we are giving high priority to fundamental work that is vital to developing and sustaining optimum yield to U.S. fishermen of groundfish resources. Thus, assessment of status and stocks is considered an essential National Marine Fisheries Service function that outranks such other activities as food science technology. In this regard, we must be able to predict and alert the industry to abundance fluctuations in resources commonly caused by uncontrollable ecological factors. For example, the Pacific cod abundance index in the Bering Sea increased from about 100,000 metric tons in 1975 to some 1 million metric tons in 1980. Further, Alaska pollock increased fortyfold in the decade of the 1960's in the absence of a directed fishery. The anticipation of such changes is necessary for industry to evaluate the economic feasibility of harvesting different species and planning viable alternatives.

STOCK ABUNDANCE INFORMATION

In addition to harvesting and investment decisions, stock abundance information is important to fishery managers. Imprecise data on the current status of fish stocks can lead to faulty management decisions. This is especially true for the nonselective trawl fishery where fishermen have limited control over species caught resulting in the catch of both target and nontarget species. We know that there will be a need to manage the bycatch of traditional species such as king crab, tanner crab, and halibut. As the domestic bottom fishery develops, some tradeoffs may be necessary to allow greater development of the fishery for nontraditional species.

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EXPORT OPPORTUNITIES

The Departments of Commerce and State are striving hard to improve export opportunities by persuading foreign nations to reduce or eliminate barriers to their fish markets and to otherwise assist in the development of our domestic groundfish fisheries. Significant progress in this area has been made with several countries. In addition, we have sponsored surveys of nontraditional marketing opportunities in various parts of the world to assist our producers who are pioneering new fishery trade ventures.

PRODUCT SAFETY

We also believe there exists a clear Government role in product safety, that is, heavy metals, toxins, and other quality hazards that require a level of scientific research that industry might not be able to independently support. The National Marine Fisheries Service will continue to cooperate closely with the Food and Drug Administration in this area.

IMPEDIMENTS TO DEVELOPING COMMERCIAL FISHERIES

Since passage of the Magnuson Act, we've learned a great deal about the impediments to developing commercially viable fisheries for underutilized species. These impediments are both short term, related to tends in the general economy, interest rates, market growth, as well as long term or structural, related to the special characteristics of the fishing industry. The latter includes such things as the fragmented organization of the industry, insufficient processing capacity, especially in Alaska, slow adoption of available technology, particularly in the handling and processing of underutilized species and inadequacies in the links in the production, processing, transportation and marketing chain which we might sum up as as "weak infrastructure". President Reagan's economic recovery program addresses the first set of impediments, while a cooperative effort between the Government and industry should deal with the structural ones. Finally, I'm sure that most industry representatives in this room would agree that resource and marketing problems in traditional fisheries are a major impediment to developing underutilized species. This is because the industry needs a healthy and predictable revenue flow from established fisheries to finance the conversion and purchase of new equipment necessary to develop underutilized fisheries.

Joint ventures are an important factor in Government-industry efforts to harvest underutilized species, far greater than we anticipated in 1977. Over-the-side sales arrangements with foreign processors are a significant share of the recent increase in domestic harvesting activity in these fisheries. In 1981, for example, over-the-side sales from Alaska and the Washington/Oregon/California regions were almost 140,000 metric tons or about half the total domestic harvest of groundfish species. In the Pacific whiting fishery, more than 80 percent of the total domestic harvest was sold to foreign processing vessels rather than landed at U.S. ports. Thus far in 1982, joint venture catches in the Alaska fishery conservation zone are approaching 100,000 metric tons and may reach 200,000

metric tons by year's end. We expect joint venture sales to continue to increase sharply and we are, therefore, hopeful that the arrangements with the Soviet Union and Poland will proceed as scheduled in 1982 and that additional joint ventures will be established with other foreign fishing nations. We expect Japanese fishing companies to be more active than in the past in over-the-side contracts with U.S. fishermen. However, we recognize that these over-the-side joint ventures provide a short term method for the increase U.S. harvest of these species, the longer term question of achieving full economic value from these resources must involve our domestic processing industry as well.

We anticipate that the industry supported by Government will continue to make progress in the area of joint ventures and that we will also see improved results in domestic processing and foreign marketing of underutilized fish and shellfish.

"CATCH AMERICA" PROGRAM

In the domestic marketing area, the "catch America" program initiated in 1981 has stimulated increased consumer acceptance of underutilized species. In fiscal year 1982, private industry will assume greater responsibility for the support and implementation of "catch America" activities, which by 1983 should be totally industry supported.

"Fish and chips" agreements have contributed to the increase of our exports to over $1 billion, almost three times greater than the 1977 level. These agreements are now showing results as foreign commitments to relax trade barriers are implemented. We are working with the State Department to renegotiate the governing international fishery agreements to include specific provisions linking foreign fishing and trade benefits. We will continue to assist U.S. firms in their efforts through organizing sales missions, and industry participation in trade shows and by disseminating export marketing information.

Industry, the councils, and other leaders are looking for ways to increase domestic processing capacity and exclude foreign fishing from our shores altogether. Foreign-built processing vessels have been purchased by U.S. firms to provide at-sea processing capacity. The fuller use of such vessels may require changes in existing legislation to make them more economical. This may include less stringent documentation laws for U.S.-registered at-sea processing vessels.

The American Fisheries Promotion Act and other amendments to the Magnuson Act are designed to give the U.S. fisherman a better opportunity to displace the foreign harvester. The regional fishery management councils are constantly alert to the needs of our domestic industry and seek to assure that such needs are fully accommodated under the requirements of the Magnuson Act. There are several attempts being made to phase out foreign processors in the near future through council action. For example, the tanner crab fishery management plan was designed by the North Pacific Fishery Management Council to increase the harvest by U.S. fishermen by creating a favorable demand for the supply of the product to its principal foreign market.

NEW DEVELOPMENT POLICY

All of these ideas are being looked at by the fisheries service in an effort to allow the industry to capitalize on the resources managed by the United States as a result of the Magnuson Act. These measures along with an integration of our development and management philosophies will serve as a basis for a new development policy. As I said before, the industry can develop these resources and the Government can serve in a catalytic role to help make that happen. I hope that this forum and others can serve as a vehicle for an exchange of ideas that will allow the industry, the Congress, and the administration to move forward together toward realizing the promise of the Magnuson Act, full utilization of our fishery resources by U.S. fishermen and processors.

That concludes my testimony, Mr. Chairman.

LETTER OF SECRETARY OF COMMERCE TO DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET

Senator STEVENS. Thank you very much. Are you familiar with the letter that the Secretary of Commerce wrote to the Director of the Office of Management and Budget concerning the title 11 ceiling?

Mr. BROOKS. No, sir. Offhand, no. If you explain it a bit further, it might strike a note.

Senator STEVENS. We'll provide you a copy of that.

[A copy of the letter follows:]

LETTER FROM SECRETARY OF COMMERCE, BALDRIGE

DEAR DAVE: I have been made aware of a problem which is interfering with the achievement of our fisheries development goals and becoming politically costly. I want your help in solving it.

The Department of Commerce's Fishing Vessel Obligation Guarantee Program helps the U.S. fishing industry get long-term financing in the private market. This program finances the construction cost of vessels and shoreside facilities. It is self-supporting and has an $850 million guarantee authority. About $200 million of that is outstanding.

The program has no authority for an annual commitment ceiling. The former Administration asked Congress for authorization to impose a $100 million commitment ceiling in Fiscal Year 1981, and a $75 million ceiling in Fiscal Year 1982. Congress rejected both requests. Nevertheless, this Administration has established a $50 million commitment ceiling for Fiscal Year 1982, and we have proposed to Congress a $25 million ceiling in the Fiscal Year 1983 budget. This commitment ceiling would decrease to zero in Fiscal Year 1984.

This program is a major part of the Congress' fisheries initiative. Major legislation directed the program to take a greater role in national fisheries development efforts. Senator Stevens has visited me twice to discuss this issue. I understand he has also spoken to you about it. Many other coastal Congressmen strongly support this program. I do not believe we will get Congressional authority for restricted commitment ceilings, nor do I see anything to be gained by causing a confrontation over a position which may not have been well considered when it was adopted. There is much, however, which may be lost.

The U.S. fishing industry is one of the most capital intensive in the country. Ninety percent of the industry is composed of small businesses. It is a cyclical industry. Many uncontrollable forces affect its earnings from year to year. Conventional financing of expensive production equipment tends to be for short-term maturities of 5 to 10 years and at premium interest rates. Longer term financing is needed for this cyclical industry to increase efficiency and to realize major growth opportunities.

The bottomfish resource in the Bering Sea and Gulf of Alaska is a good example. Our 200-mile Fisheries Conservation Zone in this area can produce a sustainable

bottomfish yield of 1.8 million metric tons annually. In 1981, we gave foreign fishermen (primarily Japan) the right to harvest and process 1.7 million metric tons of that resource. We must continue to let foreign fishermen use this resource as long as domestic fishermen are not prepared to do so. Domestic fishermen want to produce this resource. In fact, cyclical problems with the fisheries in the area make it mandatory that this resource be developed as a source of alternative earnings for the fishermen. Production equipment will be costly, requiring up to $750,000 each to convert existing harvesting vessels. New harvesting and processing vessels will cost $15–$20 million each. Shoreside plants will cost $5–$10 million each. We estimate that full domestic utilization of this resource alone would directly contribute almost $700 million annually to the gross national product, directly employ almost 30,000 people, and reduce our trade imbalance by over $1 billion a year.

The fisheries guarantee program is critical to realizing our fisheries development opportunities. We have over the years voluntarily reduced the program's involvement in fully developed fisheries. We should not now use that voluntarily reduced financing level as a base to restrict unrealistically the program's ability to help realize major fisheries development opportunities.

High interest rates and other factors would, by themselves, restrict program commitment levels in Fiscal Year 1982. A realistic level for Fiscal Year 1982 should not exceed $75 million. Realistic planning levels for Fiscal Year 1983 should be in the $150–$200 million range. For Fiscal Year 1984, a $250 million planning level would be realistic. Since we cannot predict the pace of fisheries development progress, it seems unwise to try to control program commitment levels in advance. There is a $850 million cap on the program. In view of the opportunities and the problems in predicting the pace of their realization, I believe the $850 million cap is sufficient control. I believe, this is what Congress intended.

I want to head off the confrontation on this issue. I also want to see this program do its intended job of increasing our fisheries' economic contribution to the Nation. I need your help to do this. I am asking that you remove the ceiling entirely with the understanding that we will continue the program at below the $250 million level.

Sincerely,

MALCOLM BALDRIGE,
Secretary of Commerce.

LOAN GUARANTEE PROGRAM

Senator STEVENS. At my request Secretary Baldrige has written to Mr. Stockman to request that the ceiling be taken off the title 11 program. I wonder, have you any idea or have you had any instructin yet as to what might be developing as far as title 11 is concerned for the Alaska region for this the coming fiscal year?

Mr. BROOKS. You are making records to the——

Mr. PHILLIPS. The loan guarantee program?

Mr. BROOKS. Yes, sir. Our position as I think I alluded to in my testimony is that the funding level will be scaled back. I think the administration proposal is that it will be scaled back from $50 million in the current year to $25 million in fiscal year 1983. The——

Senate STEVENS. Well, we'll give you a copy of the letter that requested that be changed. I thought perhaps you might've been notified. We're hopeful that we can get an answer to that soon.

Do you expect that we can attain the goals that we've set in the Magnuson from your knowledge of this region with the scaling back of the Federal support in these areas that you've mentioned?

Mr. BROOKS. Yes, sir. We do. We do not feel that direct Federal financial assistance is the key for the reason that in many of our fisheries, we already have overcapitalized catching capacity. We really are on a learning curve; in a transition from conventional fisheries to new fisheries and I'm satisfied that the U.S. industry is sufficiently capable and ingenious to successfully make that transition of their own. We find now that the successful fishermen, those willing to venture are indeed making conversions. They're still in-

vesting in new equipment that is specificaly designed to capitalize on new opportunities. So often in the past the Federal financial assistance programs have tended to support and stimulate elements of the industry that are on the conservative side, that are determined to continue in their traditional way. But, the more innovative elements of the industry will, we believe find no insurmountable barriers to financing sound, new ventures. A large amount of past financial assistance, as you know, has gone into supporting almost a moribund fishing situation such as we have seen in the Southern and Southeastern regions of our Nation.

Senator STEVENS. Do you think that's true with regard to the bottom fishery industry? Without some assistance, will there be a transition to that industry as far as domestic fishing efforts are concerned?

Mr. BROOKS. We believe, Mr. Chairman, that no amount of money is going to cause quantum leaps in the advance of technology and in the learning process. Industry is indeed advancing up this leaning curve and it's going to—it's going to take time. They must evolve their own knowledge, hands-on experience and certainly some degree of financial assistance is undoubtedly warranted during at least your early stages of this but simply injecting large amounts of Federal dollars is not considered to be an essential element in the continuing advance.

Senator STEVENS. Well, we appreciate your coming, Jim, and we thank you for your statement. We'll make available to you a copy of this letter from the Secretary so you can see the approach that has been taken there. Thank you very much.

KODIAK ISLAND BOROUGH

STATEMENT OF DAVE HERNSTEIN, MAYOR, KODIAK ISLAND BOROUGH

FISHERIES DEVELOPMENT AND GOVERNMENT ROLE

Dave Hernstein, I apologize for the error in the beginning. We'd be happy to have your testimony.

Mr. HERNSTEIN. Thank you Senator Stevens. My name is Dave Hernstein. I'm the Kodiak Island borough mayor. Thank you very much for coming here.

I heard about this only recently and I'm not positive of the whole range of the hearing, and if I get off track, please let me know.

PROJECTS UNDERWAY OR COMPLETED

The area of fisheries development and the Government's role in it is obviously an important subject for Kodiak since fisheries are our main industry. I'll give you a brief list of the type of projects that we have underway or have completed recently or started. Some are Federal-related. Some aren't. The Dog Bay Boat Harbor is the main one which is nearing completion now. A bridge over there to Near Island is—we're still looking for funding for it, but a lot of engineering's been done. These have been State funded so far. The entire lake dam; another part of the infrastructure that is extremely important, the whole hydroelectric project now has the State funding and the Federal permits and I appreciate your help

in getting these for us and it'll be a big plus for our community. The Minoshka Bay Dam; an expansion of the dam at the Minoshka Creek to increase the city's water resource is important. There's another one which is a Federal one, which I'll touch just briefly. That's the Port Lyons breakwater. The whole plan was a very important kind of infrastructure for Port Lyons and it was a shame that the breakwater washed out so quickly. And, I know the Port Lyons people are working very hard, as is the Federal Government to try and remedy the situation and I realize it's gonna take quite a bit of money and I know the borough is behind anything we can do to get this breakwater rebuilt and that project completed.

The city is spending a lot of money improving the roads on the waterfront to show the importance to our community of our fisheries development and 1 percent of the sales tax is dedicated for roads and another 1 percent was dedicated for the harbor projects for Dog Bay Harbor. This was done just a couple of years ago. There's a lid on it as to the amount of money, but the city is very much committed to this kind of infrastructure.

FISHERIES TECHNOLOGY CENTER

Another aspect is the Fisheries Technology Center which is being planned and programed by the State through the University of Alaska. I'm on the policy council of it. We're planning on concentrating on technology for seafood processing as well as harvesting technology. Right now the emphasis of the policy council is to concentrate with the limited funding and expansion; hiring a director to concentrate on the marketing end of the seafood technology. We feel the harvesting means are there and we don't need the expansion in the first phase in the harvesting technology. We want to concentrate on providing the markets that are the key to expansion of our industry here. There's a possibility if the Near Island Bridge isn't completed in time that we may need to use some Federal facilities for the location of the technology center here in Kodiak, either at Gibson Cove or out at the base. There's discussions going on and there might be an area in which the Federal Government could help out in that area by use of some surplus facilities.

ISLAND LAKE SEWER AND WATER PROJECT

There's also the Island Lake Sewer and Water project going on, largely State funded, which is another part of the infrastructure. We're trying to make sure we have the housing and things available for future expansion of our fishing industry. We've been very appreciative of your concern, also, and on the Outer Continental Shelf side of making sure that the development doesn't proceed faster than the technology or the studies and the planning allows Outer Continental Shelf development.

OPPOSITION TO SHARE-QUOTA SYSTEM OF ALLOCATION

On you might say, the negative side, I'll leave with you a copy of Kodiak Island Borough Resolution No. 82-38-R; a resolution of the Kodiak Island Borough Assembly opposing the share-quota system

of allocation of fisheries resources. I think you've seen it already. We've sent it to you. I just wanted to say briefly that it's the borough's concern that as much of the wealth of our fisheries go through our economy—our local economy as possible. The State and the Federal Government are spending a lot of money to develop our renewable resources and we're very much concerned about the danger of the wealth going into fewer and fewer hands and people owning not only the right to harvest, but also—not just the right to participate in the harvest, but actually a specific share of that harvest and the danger of that going into the corporate hands of fishermen who may decide to take that wealth elsewhere. And, as the wealth of our fishery increases, there's positive sides to the number of people sharing the wealth. Also, a lot of this increase comes within our local community and the danger of one small group having a control of the market share of that fishery and being able to dicate where they want to sell those fish. It could be outside of Kodiak and it would be a very dangerous philosophy in our fisheries.

200-MILE LIMIT ACT

One personal viewpoint besides from the borough's standpoint, I recall working very closely with you as other fishermen in Kodiak did 6 years ago when we passed the 200-Mile Limit Act and I always remember your genuine interest in the subject. I remember one time when we had to move from Oscar Dyson's house downtown because we were in the middle of a conversation you jumped in my dusty VW instead of Oscar's more comfortable car just for that short duration. I never forgot that because normally a person would take the most comfortable vehicle available rather than—I—there have been concerns in general as to the way that—if it's appropriate to discuss it briefly, as to the way the 200-mile limit bill's working out and I have a couple of—a couple of—there's been a lot of positive things. We've got a handle on the fish. We've gotten a handle—given the industry the stability of knowing there's going to be management of the fish, which is extremely important for our fisheries development. I think it's the Government's primary role and I think it—I think it's been successful.

COUNCIL SYSTEM

I feel that some changes in the council's system would be appropriate. The contract between the State fish management and the North Pacific Counsel is a very stark. Some of the fears that some of the fishermen had when the 200-mile-limit bill was passed was that it would lead to a Federal bureaucracy; kind of a Federal takeover of the management of our fisheries. And, I know the concern was that we wouldn't maintain Alaska control in the council. But, the board of fisheries is sort of made up of—they're fishing people. They're your peers. Each area of the State sort of gets it's best fishermen or its best leader, you might say, on that board and you have a board of leaders from around the State, of fishermen mainly, although it's not all fisherman. And, they meet once a year or twice a year. Once a year in your fishery and you call go down there and you hammer it out in one meeting and you get it over

with. It's become quite a chore even to get fishermen willing to serve on that because it's 6 weeks twice a year. But, it's been a system that's been very successful. With the council's system, I think there should be fewer meetings. Right now, with meetings once a month, it takes about a week to cover the meetings. It's put it out of the realm for the regular fishermen to participate in very easily, and we rely on our fisheries managers that have the thankless job of participating in this long thing. And, as a fisherman, when you go to the council meetings, you're outnumbered by the lawyers and bureaucrats and lobbyists and it's a very difficult situation. The council makeup, there are only like 2 fishermen out of like 11 members of the council and—and very definitely in the minority because of the makeup of the council. I feel there should be something amended to the act whereas if a person either changes his residency or his principal job that he had when he was appointed to the council—because obviously, your appointments are supposedly either representing a State or an area that with the exception of the chairman—the chairman is a natural leader or he wouldn't be chairman. We need all the leaders we can get on the council. But, there should be some sort of mandatory resignation if you should change your position and/or change your residency because you're leaving whatever position you had before unrepresented. And, without any criticisms of any individuals at all, and I'll admit some of them are very good friends of mine, I feel as a long-term thing, it would be much safer on the council if there was that, you know—people don't easily voluntarily retire from some of these things. But, it would be advantageous. I guess one indication of the—and it's obviously not your responsibility, but one indication of the lack of fishermen participation is in the recent list of nominees for the two council seats from Alaska. They're up—out of the six names, there's one banker, two very wealthy businessmen, one attorney, one person who I'm not aware of and is unknown in the fishing industry to my knowledge and some people I've talked to, plus one fisherman representative. The only one out of the six names are really industry people. At least in the Washington seat, there were two out of three names. Now, those come from the State, so those aren't—this isn't any criticism of the Federal Government at all, but it's a trend in council makeup that's very disturbing to a lot of the fishermen.

ROLE OF FEDERAL GOVERNMENT

I, in general philosophy on the Federal role and some of the things James Brooks was saying and—I agree that the major role of the Federal Government is to manage the fish and to provide the scientific expertise and knowledge. I think it's a mistake when the Government gets into trying to control the economics or study the economics of give to much financial assistance. I hear, for instance, there's a move afoot to lift the traditional fishery classification on the salmon fisheries per use of the capital construction funds and the fishing vessel obligation guarantee programs for 8 or 10 years. There's been a lot of criticism around here by fishermen of those two programs. We use them just like we use State loan programs and other programs because when they're offered, you've

got to use them to complete. But, they've—and they've had some beneficial effects. I think they've—and they've had some beneficial effects. I think they've had too much of a free reign and they haven't been reigned in at the proper time when their use was outmoded. And, tax incentives are a very strong Government tool which have some very specific purposes and they can so easily be misused that I think it's very important that we let the Government control them gently. It's easy to have everyone say "I want a tax break. I want a tax break", but in the long run you've at least overcapitalization or uneconomic project that are done because your tax account says you can save money here and don't worry about whether you can make a profit with your project. It's a very dangerous situation and I—I think that the key to the development of our fisheries is for the markets to develop and the profit motive and the profit sign to be there and putting in too much money on—on the financial end, particularly on the harvesting side right now, I think would be a mistake. The fleet's there. They're dying—they're just waiting for markets. They've got a lot of the expansion's taken place and the market is the key. One other small comment in regard to the economy, it's been said that by some that the consumer is a primary—this is my closing remark. The consumer is a primary goal of the management and not the industry. And, I think the resource—I agree with the person that said the resource is most important, but I think the development of our fishing economy and the economic benefits is—is of primary importance to Alaska in so that we have as many jobs as possible on our fisheries. And, if we really want to get the consumer the cheapest fish, we might accept just allowing the foreigners to continue to harvest with their government subsidies, but I think in the long run, it'd be detrimental, and I think it's important that we allow the American fishermen to move into it because it's an important part of our economy and particularly for the State of Alaska to develop the jobs.

SUBSIDIZED FOREIGN FISHING FLEETS

Senator STEVENS. Those were very thoughtful comments, Mr. Mayor. And, I remember that meeting at Oscar's several years ago. I don't disagree with your comments except, you know, we find the foreign fishing fleet that we're competing with has 8 percent loans. They're not—guaranteed. They're made by the government and they have lifetime pensions; they have full health benefits. They've got government subsidies that are almost unbelieveable under our system and yet we're trying to replace that fleet and still provide a product that goes to substantially the same market. It's going to take some real innovation and methods that adopt technology to lead to greater efficiency for our fleets to compete with those. At least, to be able to back them out. That's one of the reasons we've been—I have been interested in trying to phase out Federal assistance over a period of time rather than abruptly. I think that there has to be a transition period so that we can bring into the fishing fleet these new technological advances that I think our people are capable of making. But, I do appreciate your comments and I'll pass on to Senator Murkowski the comments about the Dog Bay

Bridge and the breakwater. We both have been in correspondence on those in the past. I look forward to seeing you.

I think we're going to meet at noon. But, I thank you. I think you're heading in the right direction. You're certainly heading in the direction of the current philosophy that's coming out of—out of the Federal Government as far as redefining the goals of our fisheries management and articulating the roles of Federal, State, and local government in assisting industry to attain those goals. I look forward to chatting with you more about that in the future.

CONTRABANDING DUTIES

Mr. HERNSTEIN. Thank you. In your remark about the—I agree—I agree that it's difficult to compete against the subsidized fleet and although I have not studied it in detail, I've heard over the years that the philosophy of using countervailing duties or tariffs on products from countries where they're heavily subsidized. I feel that is a more proper route than trying to equally subsidize our own fleet or ever directly as Canadians and others do, give them so much cents a pound, if they export the fish to the United States, for instance. I think if you try and play at their same game of subsidizing our own fishermen, you end up—in some of these countries, the government tells you exactly how much you can catch and how much income you're gonna make. I've read those things about Norway and others. And, then if you don't have a season, the government comes in and compensates you for the season you've failed. Thank you very much.

Senator STEVENS. The difficulty with that, Dave, is that as we study the statistics, the indications are that as with our agricultural community, our fishing community's major markets are developing overseas. So, that the contrabanding duties have—really have no impact to bring about a balance. We're, in effect, going to have our fishing fleet competing with the Japanese fishing fleet to supply the Japanese market. It's not really our market. In days gone by, the Japanese had a great deal do to with competing for thc U.S. market, but they're consuming a tremendous portion of the product that comes from our area. I think there may be competition in other area such as the tuna area, but there's not that much anymore up here. But, again, I do thank you and I look forward to working with you and I look forward to meeting with you later on today.

Mr. HERNSTEIN. Thank you so much for coming to Kodiak.

Senator STEVENS. Thank you.

OFFICE OF GOVERNOR OF ALASKA

INTERNATIONAL FISHERIES AND EXTERNAL AFFAIRS

STATEMENT OF CLEM TILLION, OFFICE OF THE GOVERNOR OF ALASKA INTERNATIONAL FISHERIES AND EXTERNAL AFFAIRS

ONSHORE DEVELOPMENT OF BOTTOMFISH INDUSTRY

Senator STEVENS. Clem Tillion?

Mr. TILLION. I'm Clem Tillion, Office of the Governor of Alaska International Fisheries and External Affairs and speaking now as the Governor's representative.

Our goal is, as it's always been, an on-shore development of the bottomfish industry. We see the joint ventures as an unpleasant but absolutely necessary step toward acquiring it first for the United States and then onshore. But, any joint venture that proceeds too long using foreign labor in effect in competition to U.S. labor will not be acceptable. In the meantime, of course, the State of Alaska would advocate rewards to those who participate in joint ventures and at this time I would like to plead for an allocation for the Russians. They've participated to the tune of some 50,000 metric tons in joint ventures and we feel that the best way to get the attention of those who have large catches in the Pacific but are reluctant to participate in joint ventures is to reward those that are willing to. I realize that things are a little stiff between the United States and the Soviet Socialists Republic. On the other hand, we're selling a lot of grain to them and it's only fair that we sell a lot of fish. We desperately need markets for our pink salmon at this time and the State advocates first priority to those nations who will not compete on our traditional market with processing facilities that are surviving a pretty tough year. The Russians have shown a willingness to buy up to 20,000 metric tons if they can get some sort of allocation. That would be about 10 million pink salmon and it certainly could alleviate although not solve some of our problems.

CAPITAL CONSTRUCTION FUND

We'd also like to advocate to you that the capital construction fund be expended so that fishermen could use the money saved in that toward the development of onshore processing plants. We feel that it should be expanded to where fishermen that wish to invest in processing plants can use the money they've earned in the fishery for that. That the need to—we, at this time have a larger fleet than necessary and it's our processing infrastructure that's lacking more than anything else and we feel that would be one that wouldn't hit the Federal Treasury too bad and it would stop the proliferation of vessels. The opportunities are fairly great in processing at this time.

TRANSPORTATION INFRASTRUCTURE

Another thing I would like to hit at this time is the transportation infrastructure. The bottomfish, unlike salmon and crab that can stand an extra cent or two cents for shipping has to compete on a world market. We do not have the exclusive. We do in salmon and crab. This is one that's worldwide and therefore the transportation is absolutely vital and we would hope that you'd strive to remove the institutional barriers that make it cheaper to ship products from Seattle to Dutch Harbor, a distance of 800 miles; considerably cheaper than shipping say from Anchorage to Dutch Harbor, a distance of 800 miles. In fact, it's now cheaper to ship from Anchorage to Seattle and back to Dutch than it is to ship direct. And, this is pretty hard for those of us in Alaska when we

see some of the mainline carriers leaving the Pacific coast, coming within a few miles of Kodiak, Sand Point, and Dutch Harbor on their way to the Orient and they're unable to carry cargo that we desperately need and on their return trip, they're unable to carry Intra Alaska cargo that we definitely need moved. To see a carrier dropping empty vans off at Dutch Harbor when they're 3½ days out of Seattle and people are flying in milk and other supplies; when here is a carrier that's stopping there, dropping off empty vans, picking up cargo for the Orient, what it amounts to is many of the foreign nations are getting better service from American carriers than are the U.S. citizens. I realize there's some built in protections for old line carriers, but this is like some of the built in protections, sir, in our old somewhat more archaic fisheries in the Southeast in particular. I feel that our transportation needs in the State is addressing them. I must report with regret that the House actions on the last night that the State House was in where they failed to pass the Governor's bond issue which included the Near Island Bridge, the 8 million for St. Paul Harbor, not to mention many other programs in western Alaska was somewhat startling and devastating. I would like to say for the people of Kodiak that the Governor will be drafting legislation. He will not be Governor at the time the legislature next convenes, but he can draft the bill and have it sitting there and I don't really think that any of the candidates that are running for Governor, if elected will fail to push it, and the bill will include those Federal aid highway projects that were already on the bond issue. The interesting thing is the legislature did not in any way redo the transportation section or remove any of the Governor's programs. They just larded up one of the other bills so badly that it was going to be vetoed. Then, when the Governor asked them to address the Federal aid projects separately, they refused to do so. So, in no case is the State's commitment to the breakwater facility at St. Paul to major facilities at Sand Point, Kodiak, Sitka been eased off in any way and the Governor will do everything possible to see that the next Governor has a chance to straighten this out.

Thank you. Are there any questions?

Senator STEVENS. As you know, I have called the Acting Secretary of State, Mr. Stroessel to urge support of the position that you've articulated for the Governor on the allocation of the Russian fleet, a proportion of the bottom fishery quota that was not allocated to Japan. Now, do you have an indications of any actions that the State might take toward being involved in the transportation system that you mentioned? Is it possible that the State may see fit to get involved in that difficulty we have in the internal point to point in Alaska transportation that's necessary to develop our fishery capability?

MAJOR CARGO AIRPORTS AND PORTS IN ALASKA

Mr. TILLION. Well, the State's proposal has been to look at what we have now. For instance, there are only three ports—airports in coastal Alaska that are capable of taking major cargo off and that's Yakutat, Anchorage, and Cold Bay, you know, where a 747 could leave loaded. And, what we did was draw a line from Tokyo to An-

chorage and from Seattle to anchorage and figure those ports that are along the line and a line ship could land at, and it turned out to be Sitka, Yakutat, Kodiak, Sand Point, and Dutch Harbor and the State goal is to build docks capable of handling a line ship. We feel that sometime in the future without doubt, line ships will be landing there. The only way we feel that you can compete on the foreign market is to be able to ship you products—this is the bottomfish area—directly to the market that is going to use the product. You will have to have docks that—a Danish ship hauling product to Brazil can load totally at one particular port and take the product directly to the market. Or, like American President Lines does in Dutch Harbor where it picks up the vans and takes them directly to the market in the Orient. Well, we feel the future of the salmon industry might in many cases be turning more toward the United States. The bottomfish market will remain an overseas market, predominately, and the State's efforts have been toward docks that are capable of handling the ships that are large enough to move it at a competitive price. Naturally, the State office in Washington will work as hard as it can toward removing institutional barriers that were placed for other purposes. As you know, the State of Alaska is hurt badly by the Jones Act which probably is a very good bill for the contiguous United States. It's just that we're not attached through rail and highway links and therefore it's a real blow to us and we would therefore hope that you would look at other institutional barriers that raise the cost of freight between one Alaskan port and another. It's very galling to find that you can ship a product from a port in the United States to an individual port in Alaska cheaper than we can move cargo within our own State.

Senator STEVENS. OK, thank you very much, Clem. Look forward to working with you as we develop these policies very much.

ALASKA FISHERIES DEVELOPMENT FOUNDATION

STATEMENT OF CHRIS MITCHELL, EXECUTIVE DIRECTOR, ALASKA FISHERIES DEVELOPMENT FOUNDATION

HIGHLINE FISHERIES TROUBLES

Senator STEVENS. Chris Mitchell, executive director of the Alaska Fisheries Development Foundation.

Mr. MITCHELL. Thank you and good morning Mr. Chairman, participants, guest, observers. My name is Chris Mitchell, I'm the executive director of the Alaska Fisheries Development Foundation.

On behalf of the Alaska Fisheries Development Foundation, I wish to thank you for giving me the opportunity to express my concerns and plans for the future. As you may or may not be aware, I'm new to Alaska, having been here only 2 weeks. I am not new, however, to fisheries development nor the fishing industry. For the last 17 years, I was directly involved with fishery development in emerging or developing countries nas a government fishery development officer; and spent the last 6 years managing foreign operations for a major tuna processor. I am, nevertheless, new to your fishing industry and new to the problems which today confront the traditional fisheries as well as many of the constraints and impedi-

ments to increased U.S. utilization of Alaska's vast groundfish resources. With time, that newness and lack of familiarity will hopefully give way to understanding and focused, definitive action by the Alaska Fisheries Development Foundation in an effort to help resolve some of these constraints and to remove impediments to development, one by one.

FISHERIES IN TROUBLE

Today Alaska's traditional highline fisheries are, as we all know, in trouble. The canned salmon industry with an aging consumer market, recent quality problems and expected record runs is in for tough times. The king crab fishery is overcapitalized which may have been partially responsible for the recent decreases in abundance. Halibut seasons are short, so short that fishermen can no longer survive harvesting this resource alone. Hopefully, many of these problems are temporary in nature, but undoubtably, some of them will continue or recur.

Therefore, the diversification of Alaska's fishing industry from these Core fisheries to new frontiers is a must. Now is a tough, if not impossible time for Alaska's fishing industry to answer many of the questions necessary to spend this diversification. Herein lies the task of Government and the role of the Alaska Fisheries Development Foundation.

ROLE OF GOVERNMENT

Through Government funding sources such as the Saltonstall-Kennedy grants, industry can attack problems, test ideas and move forward. Without Saltonstall-Kennedy funding, the Alaska industry, even when health, would have difficulty entering new ventures due to the magnitude of the unanswered questions and the high cost of risk capital.

In the following statement, I've tried to outline what I believe to be the proper role of Government in fishery development and the direction that the Alaska Fishery Development Foundation must take in it's attempt to maximize direct benefits to the industry we're all entrusted to serve.

The governments of most coastal nations participate in one way or another in fishery development. One of the avenues the U.S. Government has implemented to aid fishery development is the Saltonstall-Kennedy program. This program uses funds collected as tariffs on fishery products imported into the United States, to aid the U.S fishing industry. This is an appropriate way for the United States to fund fishery development because it uses revenues which would otherwise flow in many cases to those same countries which are attempting to retain their dominance over the resources in U.S. waters through direct subsidies to their fishing industries. The importance of this point should not be underestimated. The criteria by which on evaluates a publicly funded program of any kind must reflect the source of those funds used to finance the program. When a program is funded out of general revenues, the development effort proceeds, in part, at the expense of investment or development in some other industry. In contrast, development projects funded through Saltonstall-Kennedy funds, come at the ex-

pense of investment outside the country, and at times, no doubt, at the expense of investment in the very fleets that are now harvesting our fish off our coasts.

Once the decision has been made to spend a certain amount of money on fishery development, it's the responsibility of those charged with administering the program to see to it that the funds are spent both efficiently and in a way that maximizes their benefit. By efficiently, I mean that the development effort must be directed towards those fisheries which show reasonable potential for development or have specific constraints which can be resolved.

This brings us to the question of the appropriate role for our Government in fisheries development. This is a complex topic, one on which no individuals will ever be in complete agreement. In order to discuss this issue in a reasonable way, I've divided the question into two parts.

CHOOSING THE DEVELOPMENT PROBLEMS

The first question concerns choosing those development problems which are appropriate targets for Government attention.

It is appropriate for the Government to develop the information necessary for reasonable investment and development decisions. This information includes such things as biomass estimates, the relationship between biomass and sustainable yield and the preliminary investigations into the suitability of given stocks for commercial development. These types of information form the basis for any rational decision, public or private concerning fishery development. It is appropriate for Government to take this role because the benefits of all such investigations fall on society as a whole, not just one, small segment. We cannot expect private individuals or firms to spend the money necessary to do even a cursory job on this because individually, they cannot hope to realize but a tiny fraction of the benefits which can stem from this knowledge.

FISHERY MANAGEMENT

Fishery management is another legitimate role for Government. Yet we sometimes hear what need is there for management in a fishery which is either insignificant or nonexistent. The answer, of course, is that the expectation of wise management is a necessary prerequisite to fishery development. Fishermen and processors cannot be expected to invest the large sums of money necessary for a meaningful development unless they have a reasonable confidence in the ability of fishery managers to protect that fishery from overfishing and eventual collapse.

RESEARCH

Another governmental role is research aimed at developing the necessary technology for the development of underutilized stocks. The fishing industry is characterized by many small firms, while this is especially true in the harvesting sector, it holds true in Alaska's processing sector as well.

In many cases, fishery development must wait for technological development. Often the individual firms in the Alaska industry

have neither the financial means nor the full incentive to develop this technology. In many, if not most cases, the benefits of technological developments are freely shared throughout the industry while the costs are borne solely by the pioneer. This means that there is all too often little incentive for any one individual or firm to invest in such research even when the benefits to the industry significantly exceed the costs.

In a free market society such as ours, the role of Government in any industry must be limited. When Government enters into the business of fishery development, the burden of proof as to the wisdom of that involvement lies with those such as ourselves who are affected most directly by that involvement. This is as it should be because it forces those who make the decisions on the allocation of available fishery developmental funding to distribute those funds in an efficient, rational, cost effective and defensible way.

STRUCTURING OF GOVERNMENT INVOLVEMENT IN FISHERY DEVELOPMENT

When Government or Government funds are involved in fishery development, the program must be able to stand the test of benefit cost analysis. This brings us to the second part of the question. The first part outlined the "where". The second question concerns the "how". How should Government involvement in fisheries development be structured? This is another of those questions that will never receive the same answer from any two people, but there are some general principles which can be used to guide those who design publicly sponsored fishery development projects. When Government is involved in anything, there's always a limited amount of funding available. Various fishery interests can be expected to compete with one another for the benefits these programs bring. This, I guess, is natural and nothing I know of can be done to prevent that competition. This competition for public funding and the resources expended in that competition detract from the net benefits of the program itself. For instance, suppose a Government agency has $1 million to spend on fishery development for underutilized species, and that money could be spent either in the Ketchikan region on squid, rockfish in Sitka Sound or flatfish in Kodiak. It is possible that viable, ongoing fisheries could be developed in each of these areas for $1 million. Therefore, it's in the interest in these towns to spend the money on securing the grant for their region. A lot of money could be spent traveling back and forth to Washington, D.C., hiring consultants to prepare reports, et cetera in pursuit of these funds.

FUNDING OF DEVELOPMENT PROJECTS

Many hundreds of thousands of dollars could be spent in this manner. Unfortunately, these funds would themselves do nothing for fishery development and so must be subtracted from the $1 million when estimating the net effect of the program. On the other hand, suppose the grant were to be made on the basis of the commitment each community made on its own to development of the fishery. In this case, the competition for the grant would aid in de-

velopment of the fishery, even in those regions that were unsuccessful in receiving the grant.

The Saltonstall-Kennedy program as it is administered through the regional fishery development foundations attempts to steer this competition unding into productive channels. There is a requirement that the applicant bear a share of the cost of the project. The initial screening of proposals is done by an industry board of directors who are both knowledgeable about local fishery problems and relatively well insulated from the applicants themselves. This makes the more wasteful types of competition for funding less effective.

The closer those individuals who are making the decisions concerning the funding of fishery development projects are to the problems that funding is intended to address, the more efficient and responsive the program will be. This holds true from both the standpoint of efficiency of the funding allocation and in the types of competition used in securing those resources.

FLEXIBILITY OF PROJECTS

Another administrative question that must be considered is the tradeoff between accountability and flexibility. Fishery development projects are by definition experiments. As ventures into the unknown, they are originally designed on the basis of sometimes sketchy information. Once the experiment begins, new information is generated. At times this new information indicates a change is necessary in the direction of the project. Unfortunately, it's not always easy to change directions once a project has been started. This lack of flexibility of publicly sponsored projects sometimes causes the less than efficient use of public funds as projects develop an inertia of their own and continue down an unproductive pathway even after more realistic or productive courses of action have become obvious. On the other hand, if the recipient of the grant has complete flexibility to redesign the project once it has been initiated, there's no way to insure public money was spent on legitmate public concerns. The problem is to structure the program in such a way as to maintain a balance between flexibility and accountability that can lead to the maximization of industry benefits.

At present, the Saltonstall-Kennedy program has a structure which allows for this balance. I do not believe, however, that the full capabilities of this structure are being utilized. I believe that it's possible and necessary to increase both the flexibility of the Saltonstall-Kennedy projects we administer in the accountability of the contractors working on these projects. Right now, this concern is at the top of my priority list.

PLANNING OF GOVERNMENT ROLE

The Government role in fishery development must be carefully planned. The resources must flow towards opportunities. Care must be taken that once those opportunities are identified and the funds for their exploitation allocated that the project itself is administered in such a way as to produce the maximum benefit for the money spent. It is my belief that the Saltonstall-Kennedy program as it is now structured provides this country's most logical ap-

proach participation and fishery development. As I mentioned earlier, I do not believe that the full capabilities of this system are being utilized. It's my intention to see to it that in the Alaska region, they are.

STALTONSTALL-KENNEDY PROGRAM

Let me close with a brief review of what I see to be the advantages of the Saltonstall-Kennedy program as a method of providing public support to the seafood industry.

First, the funding comes from tariffs on imported fisheries products, and not from the pockets of the U.S. taxpayers.

Second, there's a requirement that recipients of Saltonstall-Kennedy funds to dedicate their own resources as well as the public's to the project. The applicants must therefore believe in their own project goals and demonstate that commitment by risking their own money, time and talent.

Third, and probably the most important point throughout any Saltonstall-Kennedy project, there is input from those individuals who know most about the fish business * * * industry * * * local industry. It is these people and only these people who can be expected to have the knowledge and the incentive to see to it that public funds are wisely spent.

That's the end of my prepared statement. Thank you, Mr. Chairman.

Senator STEVENS. Thank you. I've got a message there from Washington and I'll have to answer in just a minute.

VITA OF CHRIS MITCHELL

You're new to the area. Tell us something about—where did you come from? What's your background in fisheries development?

Mr. MITCHELL. Mr. Chairman, I have, as perhaps many people do here, a bachelor's and master's in fisheries biology from the University of Washington. Two years in the Philippines; aquaculture, fishery development. This was long ago, as a Peace Corps volunteer. A year in Nigeria, Biafra, under a USAID contract as a fishery technologist. Six years in Micronesia, four of them as a Government fishery officer including the chief of marine resources for the entire trust territory and 6 years with the Van Camp Seafood Co., Division of Ralston Purina. Two years in Ghana running an operation they had there. Two years in Palau, which is also in Micronesia and the last few years in San Diego managing their overseas operations from their headquarters.

Senator STEVENS. Your predecessor developed quite a record with the foundation. We're hopeful that you'll have the same success. Do you have any target areas such as underutilized species? What is the foundation working on now specifically for Alaska?

PROGRAMS AND GOALS

Mr. MITCHELL. The foundation today has a good number of programs going in a good number of areas including groundfish, some shellfish programs, some longlining technology programs. My personal feelings are, and I think that with the concern and the un-

derstanding that public funds; Saltonstall-Kennedy funds and/or industry contributions for that matter are limited. That if we intend to solve problems one by one, it will be necessary to focus ourselves in general on a specific fishery and concentrate on that fishery until—hopefully until those problems are solved. My personal goals are to air—the groundfish resource. Unfortunately, that might leave a great number of other possibly potential fisheries not receiving attention that they might wish at this time. But, again, with the few funds available, you cannot satisfy everyone and handle every problem at the same time.

Senator STEVENS. You're still getting funds from the National Marine Fisheries Service, aren't you?

Mr. MITCHELL. Well, we have—we still have some funds from the present fiscal year. We have submitted recently and the decision is soon to be made, we're told, a projected budget for fiscal year 1983. We've been given indications by people in Juneau as well as in Washington, D.C., that very likely there will be funding available for fiscal year 1983 for the S-K program.

INDUSTRY CONTRIBUTIONS

Senator STEVENS. What's—do you get additional funding from the State at all?

Mr. MITCHELL. At this time, Mr. Chairman, very little. My major goal is to look at the programs that industry can support and to more and more, if we are really responding to industry problems, we'll get more and more support and financial support, frankly, from them.

COORDINATION WITH REGIONAL COUNCIL

Senator STEVENS. What coordination do you have with the regional council now in terms of the studies and the things that they'd wish to pursue? Is there a coordination between your foundation and the council?

Mr. MITCHELL. Mr. Chairman, I know that there is. I am so new, I haven't had that coordination or knowledge at this time, but I know my predecessor worked very closely with them in defining the overall capabilities of the resource and he utilized a lot of cogenerated information in deciding which direction the foundations projects would proceed.

Senator STEVENS. Thank you very much. We look forward to working with you.

We're going to stand at recess. I've just had word I've got to call Washington before they close today. We'll resume here in about 10 minutes.

[Off record.]

[Recess.]

[On record.]

UNITED FISHERMEN'S MARKETING ASSOCIATION

STATEMENT OF JEFF STEPHANS, UNITED FISHERMEN'S MARKETING ASSOCIATION AND CITY COUNCIL MEMBER

COMMITMENT TO FISHERIES DEVELOPMENT

Senator STEVENS. The next witness if Jeff Stephans, United Fishermen's Marketing Association.

Mr. STEPHANS. Senator Stevens, good morning. My name is Jeffrey Stephans. I'm manager of the United Fisherman's Marketing Association in Kodiak. On behalf of the association, we'd like to welcome you here to Kodiak and we're happy you came. We'd also like to welcome the other witnesses and thank them for coming to Kodiak and holding the hearing here.

I'd like to speak briefly as a city council member, and on behalf of the city. Just to follow up on what Mayor Hernstein mentioned, I'd just like to bring you up to date on our boat harbor here. The city has contributed in city funds $2.2 million to the development of that boat harbor in addition to any State or Federal funds. And we have committed thus far $2.2 million and that just demonstrates our commitment to fisheries development. Of course, Mayor Hernstein mentioned many of the other projects, so I won't go into those.

I'd like to thank you specifically for your strong efforts on behalf of the fishing industry over the many years that you've been in the U.S. Senate. We appreciate those efforts and we recognize them. You've been a real strong supporter of the fishing industry and we thank you for that.

From the city's standpoint, we are almost totally dependent on the fishing industry and your efforts in regard years ago to when they were gonna close down the Navy base, your efforts to acquire that for the U.S. Coast Guard have paid off for us and we remember that. The Coast Guard has been of a great value to us and one of the things that you've done for us that we remember. Your efforts in regard to the safety-related improvements at our State airport and in our control tower, we appreciate those. They're important to us, also. As we are, we spend a lot of time flying in and out. Your efforts in regard to Terror Lake also are quite appreciated.

DEVELOPING A PROGRAM FOR THE FEDERAL GOVERNMENT

Regarding the purposes of the hearing today, I'll be as brief as possible. I just want to touch on a few points here. First, we support the efforts being made at developing a more responsible and austere spending program for the Federal Government. As fishermen, we expect to bear some of the burden of budgetary restraint. We'd also like—if there is budgetary restraint, we'd like to see some of the agencies involved pull in their belts well if the fishermen have to as well.

We appreciate this opportunity to briefly comment on our feelings regarding the direction of fiscal responsibility relating to fisheries related expenditures. One of our main concerns here in Kodiak and of our association is the tremendous Federal outlay regarding the management, surveillance, and enforcement in the

FCZ off Alaska. Central to that concern is that the overwhelming majority of the money being spent in the management, enforcement and surveillance efforts in the Alaska FCZ is directed toward fisheries principally harvested by foreign nations. Most of our surveillance, enforcemer , and management efforts are directed toward the foreign fisning effort. We agree that some of these—many of these efforts will ultimately have a beneficial effect for the U.S fishing industry through the hopefully increased level of conservation and management developed over many years of managing the foreign fisheries. We hope that the lessons learned in the foreign fisheries will be applied to the domestic fisheries as we develop. We think some of those lessons are being lost regarding incidental catch of prohibited species and domestically utilized species. We hope and we think we can, through the council, pay more attention to applying some of the lessons we learned with the foreign fisheries.

CONCERN FOR PAYMENT OF SERVICES

Given the current view of the costs to the American taxpaper to support these enforcement, surveillance and management efforts, and the more dangerous—what we feel dangerous recent tendency to begin to look toward the American fishermen to pay for certain of these services. We feel that some drastic changes must be made. Either we as Americans will have to start paying more to support many of these services to manage the foreign fishery, or we will have to devise a method through a change in the FCMA or other law to get the foreigners out, if for no other reason than that we can't afford to let them continue to fish in the FCZ.

We believe that foreign fishing fees are low and we would support any effort toward increasing them substantially. This money should then, we feel, be channeled into covering the tremendous cost of managing our FCZ and of course, the tremendous cost that we will incur as inflation affects us. It would also, in increasing the foreign fishing fees—would also tend to increase the foreigner's cost of operation, which could have some beneficial effect to bringing their costs of primary processed fish closer to ours. This, we feel is fair in that much of our production costs are directly attributable to paying for Government services and complying with Government regulations that also benefit the foreign fishing effort.

JOINT VENTURES

Just a short comment regarding joint ventures. Although we recognize the benefits which accrue to the domestic harvesting sector through the utilization of joint ventures, we strongly feel that now is the time to seriously and directly face the fact that there will be a point of diminishing returns regarding joint ventures and their benefits to domestic industry. And, we feel that we are approaching that point shortly.

The domestic processing sector of our industry is of prime importance to sustaining a health harvesting sector and all the associated benefits that accrue to the Nation and coastal communities through having a healthy processing sector. The need for diversification on the part of both the fisherman and the processor is of

prime importance given the current and ever present cyclical fluctuations in stock abundance, economic and investment conditions, and market developments.

We are approaching, we feel, with joint ventures what we feel is a turning point beyond which could preclude the domestic processing industry from receiving a fair start to make the necessary diversification needed to survive in the years ahead. We strongly urge that attention be given to establishing where the joint ventures stop and establishing what place they will play in the medium and the long range.

For the benefit of all parties involved, we feel that now is the time to establish an active dialog for the purpose of establishing a plan to put a cap on joint ventures and for the purpose of clearly delineating their limited role in the medium- and the long-range development of our domestic fishing industry.

LICENSING FEES

That's basically the end of my testimony. I just didn't want to take too much time. I'll just touch on a few other things here I just thought of sitting in the back. I'd like to just comment briefly—I don't have the section number of the bill, but the FCMA has a section in it which limits the amount of licensing fees to be charged to American fishermen. It limits that to administrative costs. Now, there's been quite a push from some areas, I understand, to lift that limit or to expand that cap and we seriously oppose that. We worked hard to get that particular section in the bill and we'd like to keep it there for obvious reasons.

SALE OF SURPLUS SALMON

Sitting in the back listening to some discussion about S–K funding and our problems with the Alaskan salmon industry. I seem to remember reading or studying something regarding that there could be possibly $1.5 million that's allowed to be spent for surplus fish under the S–K approvals. And, any effort could be put forth to help us possibly sell some of our surplus salmon that's currently in inventory to school lunch programs or other Federal programs would be greatly appreciated and we think a good expenditure of S–K money.

Senator STEVENS. We have contacted the Department of Agriculture on that to see if that could be done this year. We're hopeful, of course, there won't be any surplus. That we can have sufficient processing units here through the efforts of the Governor's office, Mr. Tillion and others. But, we have made that approach already. Good suggestion.

Mr. STEPHANS. It might—if there's any possibility, it could also help and we do have some surplus—quite a bit of surplus in inventories in the form of canned salmon if that would help alleviate the problems. If the Federal Government or the S–K money could be used to alleviate that as well. But, thank you for your efforts there and I understand some of the problems involved in arranging something like that.

CONTRIBUTION OF ESTABLISHED FISHERIES

We also feel that just in a review of the SCMA, it seems to be silent in regard to making any comment on the established fisheries. Of course, it's directed toward the developing fisheries, and we'd like to see somewhere possibly in any type of legislation dealing with SCMA oversight here in the near future some language which would give some recognition of the contribution of established fisheries and in—their contribution in providing a springboard to the development of the underutilized species. We'd like to see this recognition especially language that would recognize that there must be a balance of development goals of the FCMA in regard to the continuance and further enhancement of the value of the established fisheries. We're a little concerned that the developing fisheries could go ahead and have encouragement and support from the Federal Government without much attention being given to balancing that with maintaining the established fisheries; salmon, halibut, king crab, tanner crab. So, we'd like some type of language.

USER FEES

And, the subject of CDS and LDS subsidy vessels; American President Lines has come up here briefly and I just wanted to comment, on the city council, we discussed this quite thoroughly on a number of occasions and our comments basically revolved around the idea that if any type of permission is given or waiver is given to CDS or LDS vessels, we feel that it would be—we'd like to maintain our competitiveness with the other ports. So, if an exemption is given for one port, we'd also like to have that exemption for Kodiak or any other port, for instance, in a particular shipping line served, mainly because we need the same competitive stature to get to markets as other areas do. In regard to that, that's all really we have to comment on. Thank you.

Senator STEVENS. Thank you very much, Jeff. Let me tell you that we do have in draft form now a bill that we'll probably be circulating to the associations—the fisheries associations this month or so, dealing with a counterproposal to that that's been proposed by the President and some of his predecessors in this so-called user-fee area. And, it incorporates the suggestion that we try to look for increased fees from the foreign fishing fleets while they are still present in our 200-mile zone and at the same time in place of user fees generally look to a fuel tax concept with those tax revenues being dedicated to meeting the—some of the objectives of the FCMA as far as the domestic fishery is concerned. It would be also a similar concept for the inland waterways. I know it's going to be controversial, but if we don't watch out, we're going to have the user fee without any dedication of funds to achieve the goals of the FCMA so I'd appreciate your courtesy if your association would review that when you get it and give us your viewpoint as soon as you can. We'll circulate to all organizations that are here and to other fishing organizations in the State.

Mr. STEPHANS. Be happy to do that, sir.

Senator STEVENS. Thank you very much.

Mr. STEPHANS. Thank you.

ALASKA DRAGGER'S ASSOCIATION

STATEMENT OF AL BURCH, MANAGER, ALASKA DRAGGER'S ASSOCIATION AND BOARD MEMBER, ALASKA FISHERIES DEVELOPMENT FOUNDATION

PRODUCTION AND TRANSPORTATION

Senator STEVENS. Al Burch, president of the Alaska Dragger's Association.

Mr. BURCH. Mr. Chairman, my name is Al Burch. I'm the manager of the Alaska Dragger's Association. I'm also a board member of the Alaska Fisheries Development Foundation.

Speaking as a fisherman in the developing fisheries, I think our main concerns are the markets. We've been able to pick up the data and the technical know-how so far with not too many mistakes. We have made mistakes, but we can outproduce—our vessels now outproduce our plants in Alaska. The—the problem is partly the transportation. It's a new field for our canners to get into. We have one plant here in town now processing and as of today he's roughly two boats behind in his processing. There is a tremendous resource here around the island. My vessel brought in 93,000 pounds last night and he's leaving again tonight.

CAPITAL CONSTRUCTION FUND

If we had more canneries operating, we would have more vessels working shore based. In that line, I would like to see the capital construction fund extended to the shore-based canneries either as fishermen pooling their funds and creating their own shore-based canneries or that the canneries themselves be brought in under the capital construction fund.

As far as developing the vessels, we're overcapitalized now. There was an abuse of the chapter 11 in the S–K funds a few years ago building bottomfish boats. Those same vessels now are spending from $½ to $1 million each trying to get into the bottomfish to remodify the vessels. I believe the S–K funds are important now in the conversions, but I don't think at the time we need any more new vessels.

Speaking as a board member on the Development Foundation since its inception, I'd like to see more latitude for the use of the S–K funds. It's been very frustrating to us the redtape that we've had to go through. One of our early projects was the conversion of a Kodiak crabber to a whitefish catcher. By the time we had all the redtape cleared up, the program identified four of us had already converted. And, we've made mistakes doing it. The fund probably could've saved us a lot of money, but we couldn't wait.

TRANSPORTATION

The transportation is a problem and I think the shore-based infrastructure, a large coal storage unit here in Kodiak or Dutch; some place where you could stockpile, say, a tramper load of product, we could come in with a much cheaper method of transportation. Some of the foreign processors in the Bering Sea now are

transporting back to Germany cheaper than we can transport back to Seattle being that they do send a full shipload at a time.

That's my statement for today.

DEFERRED CONSTRUCTION FUND MONEY

Senator STEVENS. Thank you. We are working on the title 11 regulations and they should be out soon. In view of the shoreside application and we are still trying to negotiate to see what we can do with the deferred construction fund money, as I said last evening, to see if we can bring it in under the agriculture cooperative concept or find some way that it can be applied on shore. The concept of extending that to processors itself, was rejected. In the current tax climate, I doubt seriously that we could succeed there, but we may be able to at least for those who already have the deferred construction fund, see if they can be brought ashore. I think the future of the deferred construction fund itself may be in jeopardy before the year is out, but we don't know about that yet. But, at least those who have funds, well, they ought to be able to pool them and use them in an area where the capital is needed for the industry.

VESSEL RENOVATION

In terms of the conversion, do I understand you think there's sufficient vessels now, we don't need any incentives for vessel constrction? We rather need funds for vessel renovation for the bottom fisheries, is that your feeling?

Mr. BURCH. Yes; we have plenty of vessels. We have a lot of vessels now that are incredible because of the crash in the crab markets and they need to be converted into whitefish vessels. I know that it can be done on shore. There are certain people that say that the only way you can process whitefish is at sea. I've been to the Farrow Islands. I've been all through Denmark, Germany, and England and they have tremendous shoreside plants and the vessels we have now in our fleets will probably take care of all our harvesting capacity for the next several years. Eventually, we will have to build newer, bigger, better boats as the fisheries develop.

Senator STEVENS. But, for the near-term, conversions are all that are required?

Mr. BURCH. In my opinion, yes. I've—I'm in the process of converting my boats. We finished one. The other one will be finished in a—within this coming week.

Senator STEVENS. Well, thank you very much, Al. We appreciate your being present and giving us your comments.

TRADING COMPANY OF ALASKA

STATEMENT OF SARA HEMPHILL, PRESIDENT, TRADING COMPANY OF ALASKA AND CHAIRMAN, EXPORT COUNCIL OF ALASKA

FISHERIES DEVELOPMENT PROGRAM

Is Sara Hemphill, the Alaska Trading Co. president——

Ms. HEMPHILL. Good morning. It's strange to stand up to a new name. I have to keep checking my notes to make sure I introduce myself properly.

My name is Sara Hemphill. I'm the sole proprietor of a new business here in Alaska called the Trading Co. of Alaska, which is at this point 2 weeks old. I'm also here today in my capacity as chairman of the Export Council of Alaska. Export Council of Alaska is a nonprofit organization made up of Alaska businessmen and women who are interested in promoting exports from the State of Alaska. They are appointed by the Secretary of Commerce to that position and they serve for no pay. I found them to be a very diligent group of people who have given a great deal of their own time. Sometimes it seems very frustrating because while export is a key activity in Alaska, when you look at it overall, it's controlled for the most part, the players are the big players and the little guys don't have a lot of room right now since we don't manufacture very much.

Fishing, needless to say, because of my background is a key topic and we are going to be focusing on that this year. I would like to step back from the export question just now and make some remarks with respect to some of the comments and points Mr. Brooks made this morning. Despite the fact that I am no longer in—officially in a fisheries development business, I am committed now as a private business person as strongly as ever to supporting a fisheries development program. I think over the last 4 years I've seen an excellent, coordinated effort between the State, National Marine Fisheries Service in particular, and the Alaska Fisheries Development Foundation as far as promoting fisheries development goes. We have seen changes. The profile of the industry has changed. It hasn't changed as rapidly or as radically as some people would've liked to have changed, but nonetheless, it is different today than it was 4 years ago. And, I think without a cooperative effort, we couldn't have—any one of the single groups could not have accomplished anywhere near what's been accomplished so far.

JOINT VENTURE OPERATIONS

The announcement that we heard first last February officially from Mr. Gordon that the administration plans to cut back on the—in the 1983 budget, cut out the S–K program is to say the least, distressing. If I could just quickly point out some of the progress, some of the things that I think we've accomplished, it may clear things up. U.S. groundfish landings have escalated significantly since 1979, as Mr. Brooks pointed out. In fact, they doubled between 1980 and 1981. This is, of course, largely a result of our joint venture activity, but nonetheless, it indicates growth.

Last year, there were 25 U.S. vessels participating in the joint venture operations. Certainly, 4 years ago, we were still fighting the battle as to whether or not we were going to be jointing venture operations.

Between late—in 1981 and early 1982, there've been at least 17 Alaskan crab vessels that have converted to trawling. The expectation is that there will only be six to eight of those vessels partici-

pating in joint venture operations this year; nonetheless, they're preparing.

Of course, we have the *Arctic Trawler* that's out right now experimenting with new equipment that may make a difference in whether or not we can—what the capacity can be to process that fish at sea. The foundation has funded an activity in Acutan for processing. They expect to be processing groundfish this fall and, of course, right here as Al pointed out, we have the Alaska Food Co. that's processing groundfish today.

It's been my experience that while our industry members are capable and aggressive, they nonetheless need support as they step forward to grasp the fisheries that have heretofore belonged, if you will, to the foreigners. As you pointed out, Senator, the farming industry is not unlike the fishing industry in that it's composed of independent operators and the coordination effort, I think, is absolutely critical if we're gonna have a smooth and expeditious development.

PROCESSING OF FISH

Mr. Tillion noted; Al noted also that the processing sector still lags far behind the harvesting sector in it's capacity to get the job done. We see this again and again. The Alaska Food Co. is, as I point out, processing groundfish today. I had a discussion with one of the shareholders this week. They are not optimistic about the continued economic viability of that operation. It's a very, very important operation to this community and to Alaska as a whole. The money that has been committed to the Acutan groundfish processing operation is just a fraction of what is needed to go into that and it's critical to Trident Seafoods that they have continued support in that realm.

TRANSPORTATION

The transportation situation does inhibit our ability to compete. The export council has found that even more importantly is the ability to store and to hold products here in Alaska. Two years ago, the municipality of Anchorage did a study on storage capacity in Anchorage. What they learned was that dispite the fact that the storage capacity had increased rapidly within the preceding year, nonetheless, all the Anchorage community could do during the glut of the salmon season was to freeze fish. There was virtually no capacity to hold any of it. That fish had to be sold immediately or moved to Seattle. That gives the seller, of course, no leverage in negotiating price. And, I hear again and again comments from the fishing industry, "If we only had someplace to store the fish." What happened once the study was completed, private sector came in and indicated that there was no need for any kind of a municipal storage unit, that the private sector was gonna take over, that all these plans were on line and the job would get done. That was 2 years ago. Needless to say, I'm sure you're aware nothing has been done and the situation is no better than it was then and we're looking at a bumper crop this year.

INFORMATION NETWORK

The information network which has resulted from the S–K moneys and I speak to the foundation in particular on this, I think has been very valuable. It's extremely difficult to quantify what was done. What has been done. The foundation I think was quite responsible in the production of the ports out that it has produced over the last couple of years. The inquiries coming into the office, I could have to say, right before I left, have increased and improved in their nature. They're serious questions. The people who are in there are people who really are seeking help and looking for direction and guidance. The foundation staff, as I understand it, has made every effort to direct industry people to other industry for answers and this has been very successful. I would like to state one more time—this is probably the last shot I'm gonna have at this foundation push, but we've made an investment. The Federal Government of the United States has made an investment in development and we in Alaska have received certainly a lion's share of it. The balance between Federal dollars spent on a project and industry dollars spent on a project have changed over the last 4 years. There were many more Federal dollars in fisheries development projects in the early stages of the foundation. I think that clearly, the industry is taking a much more responsible role and is happy to take more of the lion's share of the cost of a project. To cut that off now in 1983 and have no—not program at all, possibly, would be at the very least unfortunate.

EXPORTING

I would just like to briefly make two comments or comments on two issues and I don't really have anything all that new that hasn't been said here this morning, so I won't take up very much of your time. The export issue from Alaska, I think, is an important one. It seems to become increasingly more important with the, if you will, small businessmen. Small businessmen are not familiar with export. It's sometimes overwhelming. The Council is prepared—has submitted at this point to the International Trade Administration to develop some funds to counsel and help out the small businessman in getting involved in export.

The—some of the numbers are surprising. The State of Alaska had well over a billion dollars' worth of export in 1981 and that compares to 229 million dollars' worth of imports. The exports were predominately in four product—generic product categories: Forrest products amounted to $278 million, liquified natural gas was $310 million, fertilizer, $133 million and the lion's share, of course, went to seafoods, $427 million.

Promoting exports for Alaska fisheries products which is our key focus this year, requires fisheries development. If we don't have a product there, if we don't have it stored, if we don't have access to it, we can't even begin to compete in the export arena. Your success in bringing about cutback in foreign allocations, your success in making S–K happen and maintaining it has been invaluable and I would like to join with the others in thanking you for all of your support there. But, the job is a long way from being done.

COORDINATING DEVELOPMENT WITH MANAGEMENT

The second point I'd like to make very briefly is one that I personally have been very committed to. You asked a question earlier of Chris Mitchell and the role or the coordination between the council and the foundation. As you will recall, without the council's efforts, we probably never would've had the foundation in the first place. The council's always been very supportive of the foundation and development. Although, I think that in the ensuing 3 years, we did not spend the time we should have coordinating development efforts with management efforts. Alaska has an absolutely unique opportunity to coordinate those two and, if you will, do the job right. The foundation board has taken a much more active interest in coordinating with the council. They have directed staff to participate in the council meetings and so I expect to see that activity increased. We, of course, have Al Burch who serves in the A.P; Jesse Foster, who used to be with the board also serves in the A.P. So, we have—we've had that ongoing input, but I think as in many instances, it's the staff day-to-day communication that really makes a difference. And, with the increase in joint venture activity, with the fish and chips policy issues coming up, I think that development input is critical.

CONTINUATION OF S-K PROGRAM

So, in summary, I would just like to recap the points that I've made, and again I apologize for not having anything new and scintilating. We seem to have the same problems in front of us again and again and that is to urge you to make sure that the S–K program continues and that it does not die in 1983. I think phaseout is something that everybody in the industry not only expects but encourages. And, the fishing industry—the members of the fishing industry I've worked with over 4 years don't want to ask for help. They'd just as soon do it on their own if they could. But, for instance with this processing situation, it's absolutely critical. They need that support. I think I would urge you, too, to continue your pressure and—and efforts with the State Department as far as fish and chips diplomacy goes. The benefits back to the fishing industry there are really important. The support for expanded storage capacity, holding capacity and improved transportation system, I think there's a big role for the State to play here. But, I think that any and all efforts that you can contribute would be greatly appreciated. The council expects to work very, very closely with, in this instance, the municipality of Anchorage and other municipalities rather than going directly to the State. And, finally, I would just state that I hope to see much greater coordination between the foundation and the council so that we make sure that we stay on track with development and managemant. Thank you.

DEVELOPING MARKETS

Senator STEVENS. Thank you. I want to thank you for what you did as the head of the Alaska Fisheries Development Foundation. This report on Alaska pollock is going to be invaluable to us in

Washington and we wish you well in your new efforts. It's interesting that your successor has had some experience in the international field in the past. We're quite hopeful that the foundation will turn it's direction toward developing markets; new markets in the lesser developed countries as one of the projects that they can undertake in the future So, I wish you well, personally, and I look forward to working with you.

Ms. HEMPHILL. Thank you.

STATEMENT OF OSCAR DYSON, FISHERMAN, ALASKA

CAPITAL CONSTRUCTION OR DEFERRED PAYMENT PROGRAMS

Senator STEVENS. Oscar Dyson will be our last witness today.

Mr. DYSON. Mr. Chairman and staff, we're always pleased when you come to Kodiak and spend your valuable time to listen to our problems 'cause we know that you're going to give us the most help possible.

For the record, I'm Oscar Dyson, longtime fisherman in Alaska. I've spent some 35 years fishing and some 7 years in the processing business. I also served 13 years on the board of fish and game, which was the regulatory—the Department of Fish and Game of Alaska. Therefore, I have some knowledge of the problems that we run into in the fisheries.

First, I'd like to say a few words on the capital construction or deferred payment programs. I feel that the capital construction program has been the single most important thing in developing and modernizing our fleet. It's been a good program and we appreciate the people who implemented it. However, I feel that it's reached a point where it needs to be steered to another important part of our fishery. in building boats, it's already done as much as it can. It's probably gone over, but we have a new phase of the bottomfish and the development of bottomfish and money is the big problem. Trying to borrow money at 15 or 20 percent has been one of the big deterrents in developing our bottomfish. The equipment and the plants is astronomical when you start getting to modern equipment to compete on the foreign market. I think better surveillance of that—we need it now just as much as we ever did, but we need another phase; that is modernizing and developing our plants because without those, no matter what kind of a fishing catch effort you have, you're not going to go anywhere. In order to meet the competition on the world market, we've got to have money that's as cheap as possible; the 18 and 20 and 15 percent is certainly not going to make us very competitive on the market when our foreign brothers can go ahead and process a less—less interest and less wages and things. I think that would be the biggest help that, Senator, you could give to us. To find some way that the fishermen could use that Capital Construction and to help modernize the plants. I don't think we need new plants. I think we have all the plants that's necessary; some 16 in Kodiak. Those plants have got to be modernized and get into the fin fish or bottomfish fishery.

JOINT VENTURES

I'd like to go on and say a few words about the joint ventures. I think the joint ventures—I wasn't overwhelmed with it to begin with, but I think that they at least did one thing: They've showed us that the fishery here—they've showed us the best means to harvest them. some of our boys, just how to do it. So, with that, it's done a good job. However, it's reached to the point where it could be the biggest deterrent we have in developing our shore plans.

SHORE PLAN

The shore plan is where Alaska gets it's most benefit. It's where it's people get the work. It diverts the money into the communities and it's vastly needed now with the condition of our fisheries there. They're overdeveloped and the time is too short or the fleets are too big and we need to get into these other fisheries very badly. I think in the allocation of joint venture areas, they should be taking into consideration that of the local need of having a high quantity of fish that's readily available, it's right on their doorstep and—like in Shelikof Straight, which is probably one of the largest concentration of pollock. We would look badly on it if foreigners came in and stripped that fishery down to where it was scratch fishing. You can't make money on scratch fishing. I think the allocation should be studied and kept the big allocations aways from the communities that have the local plants that need that product.

I don't have a prepared statement, so I guess that's about all I want to take up your time, Ted.

MODERNIZATION

Senator STEVENS. Well, I thank you for that. Do you—do you feel that the processors themselves would be willing to work out some arrangement whereby the preferred construction funds could come into existing facilities in some form or a cooperative type of joint venture in the modernization of the processing plants?

Mr. DYSON. Well, Senator, I think that in order to continue in existence, many of them have to. Maybe some of the larger companies—I couldn't say for sure—would not look favorable on getting competition from other areas, but we've to get into that bottomfish. We've got to put our fleets to work. We've got to put our communities to work and so with that in mind, I think certainly that they would have to try and do everything they can to get the money that's needed to modernize their plants. Modernization and going into different equipment that is not in the customary fishery that we're in now is the big, important thing. We have a new plant and we certainly intend to go into the bottomfish whenever the money is available. And, if we go the common, standard way of going to the bank, why, it's going to take a long time to get in that position where we have the money to do it.

COOPERATIVE VENTURES

Senator STEVENS. Well, we'll explore a way to try and save—as I indicated, the funds are in those deferred construction funds now and to—to enable fisherman to participate as farmers have in coop-

erative joint ventures, in their grain elevators and their fertilizer plants. They've had cooperative joint venture authority through Federal statutes that I think ought to be extended to fishermen. They're not totally the same as the deferred construction fund, but they are a cooperative concept of the investment in the way they pay taxes. When they improve their production, they get an increased tax liability at that time as far as the profits from the production of their—of their crops. But, it's been an interesting thing to watch, the farmers as they use the cooperative concept, particularly the California farmers and their fertilizer program. Something which the Alaska fishing industry ought to study. I think that the Foundation maybe ought to study how they put that together because it was most interesting the way they put together—they used a concept called the Esops you know, stock option plans. And, they formed a cooperative to build the massive fertilizer plants that are needed for the California farmers. They own those plants, but it's subject—it's been a very interesting application of existing tax laws to achieve a goal. We're gonna research that and see—work with the Alaska fishing industry and see if we can adapt those concepts to meet the needs of the financing on shore for the processing facilities that we need in the bottomfishery. But, we look forward to working with you. As I told you last night, you've got a unique background and now you've got a foot in both camps, really, so I think we'll have to call on you to help us keep peace when we try to bring about this new phase of our development. You've done it before and I know that we can rely on you in the future, my friend.

HIGH INTEREST RATES

Mr. DYSON. Well, Senator, we'll give you all the help we can and I think that our company, if you look at the background of it and the way we may have done almost the same as you're talking about, the farmer cooperative. Ten of us fishermen decided we wanted to go further into the industry and we did go into the other camp and it's had it's problems, but we've made some success at it and now it's reached a point where the money problem, the high interest rate is one of our biggest problems and competing of course, on the market for the bottomfish is another one that will be. So, if we go to use some of our money—capital construction money to finance the equipment and stuff, it would've been a great help—it will be a great help, though. I hope you'll keep that fund rolling.

Senator STEVENS. We'll do our best.

CONCLUSION OF HEARING

Thank you very much. That's the end of the schedule for witnesses today. if any of you wish to add to the comments you've made here or send additional comments, if you'll send them to my office in Washington, we will review them as we look to the problem of the approprations this year and, again I appreciate your cooperation in meeting with us here today.

[Off record.]

This concludes the hearing. The subcommittee will recess.

[Whereupon at 11 a.m., the hearing was concluded and the subcommittee was recessed to reconvene at the call of the Chair.]

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